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# Price support programs as a means of agricultural support and stabilization.

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PRICE SUPPORT PROGRAMS AS A MEANS
OF AGRICULTURAL SUPPORT AND STABILIZATION.

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# AGRICULTURAL SUPPORT AND STABILIZATION

by

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# CHAPTER I

## INTRODUCTION

The paramount importance of a strong and productive agricultural plant is sometimes lost sight of in day-to-day affairs of a highly industrialized and urbanized society. Without adequate agricultural supplies, produced with an efficiency that imposes the minimum manpower and cost drain on all citizens, there would be neither the will nor the means to obtain industrial output or high standards of living.

A continued and even supply of wholesome food has freed this nation from nutritional want and provided the kinds and varieties of food needed for balanced diets. Bountiful and stabilized availability of feed supplies has fostered dynamic livestock and poultry industries. Quality fibers and forest products have met all textile and industrial demands. Ample quantities of commodities have stimulated export programs. Agriculture's abundance has put a damper on inflation and has played an important part in holding down the cost of living.[1]

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[1] U.S., Department of Agriculture, CCC, Summary of 30 Years' Operations, (Washington, D.C.: Government Printing Office, 1965), pp. 3-7.

Abundance, stability, conservation, and security have been continuing aims of farm programs since the first national legislation dealing with price support and production adjustment was passed in 1933. The American farmer has used science, technology, and management practices as a way of life, and his productive efficiency has increased by the year and by the decade. Despite his efficiency, however, the supply-demand balance has at times tipped to his detriment.[2]

This growth has resulted in the agricultural sector of the American economy spending more than $41 billion annually for the products of industry, the wages of labor, and financial services. Government subsidies spent on agriculture exceed $4 billion each year.[3] Four out of every ten jobs in private employment are related to agriculture.

Farmers sell about $37 billion worth of products a year. Processors add about $57 billion preparing their products for market. This makes agriculture a $94 billion industry—the Nation's largest.[4]

Without the mechanisms to adjust this large industry and to keep supplies in line with needs, efficient production can mean over-production with a physical drain on resources and an economic drain through lower prices, lower farm

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[2]Paul A. Samuelson, Economics, An Introductory Analysis, (New York: McGraw-Hill, 1967), pp. 390-413.

[3]U.S., Bureau of the Budget, Appendix to the Budget of the United States Government for Fiscal Year 1969, (Washington, D.C.: Government Printing Office, 1968), pp. 146-167.

[4]U.S., Department of Agriculture, Summary of 30 Years' Operation, p. 3.

income, and undue government cost. Production that satuates all markets, and that soars past all demand and need, loses the advantages gained by efficient operations to meet market requirements, and suffers all the disadvantages offered by market glut.[5]

On the other hand, without the mechanisms and incentives to assure supplies ample to needs, efficient operations can be offset by underproduction with resultant setbacks in meeting domestic demand, the loss of a place in the market, and a slackened contribution to the general economy.

The balance between adequate supplies and shortages is very delicate. Overproduction produces chaos in agriculture and underproduction creates prices for food and fiber products that retards national economic growth. This creates a need for control and adjustment mechanisms. The adjustment may mean either increased or decreased production of an individual commodity. The objectives of adjustment or controls in the national farm program vary with individual prospective and level of consideration. Objectives that have been expressed include:

1. Ensure a balance of output and needs—supply and demand—both domestic and foreign.

2. Assist in providing the farmers a fair return for products and adequate bargining power at the market place.

3. Aid in a smoother transition of population from the farm to other industries.

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[5]Samuelson, Economics, pp. 396-398.

4. Conservation of natural resources.

5. Ensure adequate domestic source of commodities such as wool and sugar which have been determined critical for national security purposes and general economic welfare.

These objectives were enumerated by Congressman Jamie L. Whitten, Chairman, House Appropriations Subcommittee for Agriculture in a speech presented to the Annual Convention of National County Agents Association in Louisville, Kentucky on October 17, 1968. Other list of these objectives are about the same except for a different order.

National farm programs to achieve these objectives have historically followed eight basic—and often closely interrelated—approaches:

1. Price support programs: utilizing loans, purchases in lieu of loans, direct purchases, and payments.

2. Acreage allotment and marketing quota programs used in conjunction with price support programs or as separate programs so as to bring supplies into reasonable balance with demand.

3. Land retirement, adjustment, or diversion programs, used in conjunction with price support or as separate programs.

4. Commodity storage, handling, disposal, and surplus removal programs—for both domestic and foreign use.

5. International commodity agreement programs such as the International Wheat Agreement.

6. The sugar and wool programs.

7. Special food assistance program, including the national school lunch program; the Child Nutritional Act, which includes the special milk program; the food stamp program; the commodity distribution program, which is the direct distribution of foods to schools, charitable institutions, low income families, and others.

8. Marketing agreement and order programs.

Prices of farm commodities tend to be less stable and lower than is desirable in the public interest as viewed by the Congress. This is due largely to the difficulty of keeping production in line with market demand. A limited objective of the price support approach to protect and stabilize farm income and ensure desired levels of production.[6]

The Agriculture Act of 1949 makes price support mandatory for the basic commodities—corn, cotton, wheat, rice, peanuts, and tobacco.

The objective of the wheat program is to offset the downward pressure from big crops (both domestic and foreign) by reducing the production in order to cut the surplus carryover and thus strengthen farm prices. The price support program for wheat is supplemented by acreage allotment and acreage diversion.[7]

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[6] U.S., Department of Agriculture, ASCS, Price Supports, BI No. 4, Washington, D.C.: Government Printing Office, October, 1968), p. 1.

[7] U.S. Department of Agriculture, ASCS Commodity Fact Sheet Wheat, (Washington, D.C.: August, 1968), p. 1.

The National Wool Act of 1954, as amended, requires price support for wool and mohair. The objective of the wool program is to encourage domestic production at a yearly level of 300 million pounds of shorn wool through the use of annual incentive payments.[8]

## Purpose and Scope

The purpose of this study is to examine the price support programs for wheat (adjustment ot limit production), and wool (adjustment of increase production), and evaluate their effectiveness. Can the same mechanism be used to both decrease and increase production of commodities?

Chapter I includes a brief background of the problem area and a summary of the major legislation directed toward adjustment of the agricultural industry productivity.

Chapter II discusses the Commodity Credit Corporation as the financing agency for price support programs.

Chapter III is directed toward the factors considered in determining the price level at which designated commodities are supported.

Chapter IV contains a discussion of other farm programs related to the price support program. It shows how these programs compliment the price support mechanism.

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[8]U.S., Department of Agriculture, ASCS, Compilation of Statutes Relating to National Farm Programs, Agriculture Handbook No. 327, (Washington, D.C.: Government Printing Office, 1967), pp. 200-203.

Chapter V gives the results of attempts to adjust the production of wheat and wool. The achievement of the objectives of these two programs is evaluated in this chapter.

Chapter VI gives a concise summary of the major results of this study and conclusions reached.

## Legislative Summary

The early 1900's were good years for U.S. farmers because of the war economy, but by 1932, agriculture with a fourth of the national population had only about one-twentieth of the national income. The average farmer, after paying his cost of production, interest, and taxes, had only about $290 left to pay family living expenses for a year. Jobless people were leaving the cities and going back to the farm. Thus, agriculture had to bear not only its own destitution but a big share of the Nation's relief load. In spite of their plight, farmers were able to grow part of the food they needed to survive the depression.

Farmers produced more than ever before in a desperate effort to make ends meet. This hastened their financial ruin. Because it was actually cheaper than coal, many fueled their stoves with corn in the winter of 1932-33. Some had to sell their wheat for twenty-five cents a bushel, cotton for five cents a pound, hogs for three cents a pound, beef for four cents a pound. Violence flared in many farm areas.

Farmers used force to prevent mortgage sales of their property. Early March 1933 marked a time of unprecented crisis in American history. Banks were closed throughout the Nation. Millions of unemployed in the cities waited to see what

President Roosevelt would do. In the country, farmers hoped the new President and the new Secretary of Agriculture could save their land from foreclosure and return respect for law and order to their communities. There was immediate need to cope with the national economic emergency which had arisen.[9]

The new administration recognized that the farm crisis required immediate legislative action. On May 12, 1933, the President signed the Agricultural Adjustment Act.[10] In this Act, the Congress declared its policy to be "to reestablish prices to farmers at a level that will give agricultural commodities a purchasing power with respect to articles that farmers buy equivalent to the purchasing power of agricultural commodities in the base period."[11]

To restore farm purchasing power of agricultural commodities to the prewar 1909-14 level—a period considered reasonable equitable for farmers—the Secretary of Agriculture was authorized to enter into contracts with the farmers to adjust production in specified surplus commodities in return for benefit payments, financed chiefly by processing taxes on the commodity concerned. The Act also made price support loans mandatory on the designated basic storable commodities of corn, wheat, and cotton. Permissive supports were authorized for other commodities upon

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[9] U.S., Department of Agriculture, ERS, Century of Service, (Washington, D.C.: Government Printing Office, 1963), pp. 144-147.

[10] Hereafter referred to as the AAA.

[11] U.S., Department of Agriculture, ASCS, Fact Sheet, 35th Anniversary of Agricultural Adjustment Act of 1933, (Washington, D.C.: Government Printing Office, 1968), pp. 4-12.

recommendation by the Secretary and approval by the President. Commodity loan programs carried out from 1933 through 1937 included those for cotton, corn, turpentine, rosin, tobacco, peanuts, dates, figs, and prunes.

In January of 1936, the Supreme Court handed down a decision (the Hoosac-Mills case), which invalidated the production control programs of the AAA that were carried out through contracts between the Federal Government and individual farmers, and financed by processing taxes.[12]

The Soil Conservation and Domestic Allotment Act of 1936 shifted emphasis from acreage control toward soil conservation and upbuilding, and direct appropriations replaced the processing tax. The Act set up the agricultural conservation program, with Federal payments authorized to cover part of the cost for soil-conserving practices, and permitted acreage limitations for specified soil-depleting crops.

The Agricultural Marketing Agreement Act of 1937 authorized marketing agreements and orders for milk, fruits, and certain vegetables.

Surpluses and low prices for wheat and cotton brought about by heavy crops of 1937 put production needs back into sharp focus and, with active participation by farm leaders, the Agricultural Adjustment Act of 1938 was made law in February. This Act, with many amendments, is still in effect. It combined the conservation program of the 1936 legislation with new features designed to meet

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[12]U.S., Department of Agriculture, ASCS, Farm Commodity and Related Programs, Agriculture Handbook No. 345, (Washington, D.C.: Government Printing Office, 1967), p. 4.

drought emergencies as well as price and income crises resulting from surplus production. Marketing control was substituted for direct production control, and authority was based on Congressional power to regulate interstate and foreign commerce. New features of the legislation include:

1. Mandatory nonrecourse loans for cooperating producers of corn, wheat, and cotton under certain supply and price conditions (if marketing quotas had not been rejected), and loans at the option of the Secretary of Agriculture for producers of other commodities;

2. Marketing quotas proclaimed for corn, cotton, rice, tobacco, and wheat when supplies reached certain levels;

3. Referendums to determine whether the marketing quotas proclaimed by the Secretary should be put into effect;

4. Crop insurance for wheat, and;

5. Parity payments, if funds were appropriated, to producers of corn, cotton, rice, tobacco, and wheat in amounts which would provide a return as nearly equal to parity as the available funds would permit.[13]

These payments were to supplement and not replace other payments. In addition to payments authorized under the continued Soil Conservation and Domestic Allotment Act for farmers, special payments were made in ten states to farmers who

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[13]The parity price is that price which will give an agricultural commodity the same purchasing or buying power in terms of goods and services farmers buy that it had in the base period 1910-1914. This period was chosen because the ratio of purchasing power of the net income per person on farms was considered equitable to the income per person not on farms.

cooperated in a program to retire land unsuited to cultivation as part of a restoration land program initiated in 1938. The attainment, insofar as practicable, of parity prices and parity income was slated as a goal of the legislation. Another goal was the protection of consumers by the maintenance of adequate reserves of food and fiber. Systematic storage of supplies made possible by nonrecourse loans was the basis for the department's Ever-Normal Granary Plan.[14]

In 1941, the list of basic commodities, with price support made mandatory, was expanded by Congress in the so-called Steagall Amendment to include rice, tobacco, and peanuts. This legislation made supports mandatory for the duration of the war and two years after the end of hostilities on some nonbasic commodities. The Secretary of Agriculture, during the emergency, publicly asked for expansion of productionto meet war and postwar needs. These commodities included certain varieties of dry peas, certain varieties of dry edible beans, soybeans for oil, peanuts for oil, flaxseed for oil, American-Egyptain cotton, potatoes, and sweet potatoes.

The Agricultural Act of 1948 required the basic commodities to be supported at 90 per cent of parity. Support, for commodities covered by the Steagall Amendment, was required at 90 per cent of parity until January 1, 1950, for milk and milk products, hogs, chickens, eggs, and Irish potatoes harvested before January 1, 1949. Other commodities were to be supported at not less than 60 per cent of parity (or comparable price), but not in exess of the 1948 support level.

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[14]U.S., Department of Agriculture, Agriculture Handbook No. 327, pp. 51-64.

The Commodity Credit Corporation[15] was created by Congress in 1948. This act provided a charter for CCC and established it as an agency of the United States within the Department of Agriculture. The CCC was incorporated under the laws of the State of Delaware in October 1933.[16]

The Agricultural Act of 1949 directed mandatory support for the basic commodities at levels not in excess of 90 per cent of parity, nor less than certain prescribed minimums. Price support between 60 and 90 per cent parity was made mandatory for wool and mohair, tung nuts, honey, and Irish potatoes. Milk and milk products were to be supported at levels between 75 and 90 per cent of parity. The Act authorized price support at levels not in excess of 90 per cent of parity for other nonbasic commodities, subject to consideration being given to specified factors in the act.[17]

The Agricultural Act of 1950 prohibited price support for potatoes of the 1951 and subsequent crops unless marketing quotas were in effect. There is no legislation which authorizes marketing quotas for potatoes.

The Agricultural Trade Development and Assistance Act of 1954 (Public Law 480), combined or extended various programs to utilize agricultural abundance as

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[15] The Commodity Credit Corporation will hereafter be referred to as CCC.

[16] U.S., Department of Agriculture, CCC, Summary of Operations, p. 1.

[17] U.S., Department of Agriculture, Agriculture Handbook No. 327, pp. 171-186.

a form of foreign aid and further defense policies. From its inception, and as amended by the Food for Peace Act of 1966, this law has been utilized as an instrument of national foreign policy.

The Agricultural Act of 1956 provided for a two-phase soil bank program to assist farmers to divert a part of their cropland from the production of excessive supplies. The acreage reserve part of the soil bank authorized payment by CCC to producers for retiring allotment acreage from production of basic crops on an annual basis. The conservation reserve part authorized the CCC to make payments for shifting of cropland into grass, not to be harvested, or other conservation uses over longer periods. The acreage reserve program terminated in 1958, but land could be put under ten year conservation reserve contracts through 1960.[18]

Low income, excessive production, and excessive Government stocks continued to be problems that closed out the 1950's. Emergency feed grain legislation was passed by the Congress in 1961, which provided higher support levels for farmers who voluntarily reduced acreage of corn or grain sorghums by 20 per cent or more.

The Agricultural Act of 1961 established specific programs for 1962 crops of wheat and feed grains, aimed at diverting acreage from these crops. The Food and Agriculture Act of 1962 continued the feed grain program for 1963 and added barley to the program. Under this law, beginning in 1964, the 55-million-acre minimum

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[18] Ibid., pp. 33-42.

national wheat acreage allotment was permanently abolished, and the Secretary could set allotments as low as necessary to limit production to the amount needed.[19]

The Feed Grain Act of 1963 provided for an acreage diversion program for the 1964 and 1965 crops of feed grains similar to the 1963 program. It provided price supports for corn at 65 to 90 per cent of parity.

The Agricultural Act of 1964 was specifically directed to cotton and wheat programs. For wheat, a voluntary program was established that called for an acreage allotment and land-diversion program, with wheat food processors and exporters required to buy certificates to cover all wheat they processed or exported.

The Food and Agriculture Act of 1965 provides for a voluntary wheat marketing certificate program for the 1966 through 1969 crops. This authority was extended to the 1970 crop by legislation in 1968.[20]

The National Wool Act of 1954 established a price support program for wool and mohair. This program has been extended through 1969. The wool price support level cannot exceed 110 per cent of the parity price for shorn wool. Support prices for mohair must be within 15 per cent of the comparable percentage of parity at which shorn wool is supported.[21]

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[19] Ibid., pp. 86-96.

[20] U.S., Department of Agriculture, Wheat Fact Sheet, p. 2.

[21] U.S., Department of Agriculture, BI No. 4, p. 7

Unlike other support programs, the program for wool and mohair is aimed at encouraging additional production of these products. Domestic production accounts for only about 30 to 35 per cent of the annual U.S. consumption. Imports, primarily from Australia and New Zealand, account for most of the clothing wools imported. All carpet wool used in the U.S. is imported.

Beginning with the Agricultural Adjustment Act of 1933, Congress had continually amended programs in effect and has continually created new programs in an effort to bring about and maintain a balance between the supply and demand of agricultural products. The more recent programs have emphasized voluntary participation by the farmers and ranchers. The rapid changes in supply and demand have made achievement of this balance a very difficult task requiring frequent changes in the national farm programs.

## CHAPTER II

## FINANCING SUPPORT PROGRAMS

The Commodity Credit Corporation is the fiscal agency of the United States for national farm commodity programs. The CCC is a wholly owned government corporation, created to stabilize, support, and protect farm income and prices; to assist in the maintenance of balanced and adequate supplies of agricultural commodities; and to facilitate the orderly distribution of such commodities.[1]

In the early years, under a Delaware charter of October 17, 1933, it was managed and operated in close affiliation with the Reconstruction Finance Corporation. On July 1, 1939, the Commodity Credit Corporation was transferred to and made a part of the U.S. Department of Agriculture.

In 1948, the Commodity Credit Corporation Charter Act granted a permanent Federal charter to the Corporation. The charter gives the Corporation broad authority to buy, sell, make loans, store, transfer, export, and otherwise engage in commodity stabilization.

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[1]U.S., Department of Agriculture, Compilation of Statutes Relating to Agricultural Stabilization and Conservation Service, Agricultural Handbook No. 327, (Washington, D.C.: Government Printing Office, 1967), pp. 157-171.

Congress has kept the Corporation's financial resources abreast of its responsibilities. The original capital in 1933 was only $3 million, and there was no specific borrowing authority. Today, the capitalization is $100 million and the borrowing authority, which has been increased a number of times, stands at $14.5 billion. The large amount of financial resources is necessary because the Corporation must be prepared (1) to finance loans or make payments to all eligible persons who may apply, (2) to finance and maintain existing loans and inventories, and (3) to finance special activities for domestic and foreign assistance programs.

## Management Structure

The management of CCC is vested in a Board of Directors, subject to the general supervision and direction of the Secretary of Agriculture, who is chairman and an ex-officio member.

Members of the board are appointed by the President of the United States, by and with the advice and consent of the Senate. The present six-member Board, in addition to the Secretary, is composed of the Under Secretary of Agriculture, the three Assistant Secretaries of Agriculture, the Administrator of the Agricultural Stabilization and Conservation Service, and the Director of Agricultural Economics.[2]

The Commodity Credit Corporation Charter Act, as amended, provides for an Advisory Board consisting of five members appointed by the President of the United

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[2]U.S., Department of Agriculture, Economic Research Service, Agricultural History Branch, Century of Service, (Washington, D.C.: Government Printing Office, 1964), pp. 496-497.

States. Not more than three of the members may belong to the same political party. The Advisory Board is required to meet at the call of the Secretary of Agriculture, at least every ninty days.

The function of this board, which is made up of members having broad agricultural and business experience, is to survey the general policies of the Corporation, including those connected with the purchase, storage, and sale of commodities, and the operation of lending and price-support programs, and to advise the Secretary.

The Secretary of Agriculture is directed to appoint officers and employees for the conduct of the business of the Corporation, define their authority and duties, delegate to them such of the powers vested in the Corporation as he may determine, and require that such of them as he may designate be bonded.

The Corporation has no operating personnel. Its price support programs, and domestic acquisition and disposal activities, are carried out entirely through the personnel and facilities of the Agricultural Stabilization and Conservation Service (ASCS), and this agency's 4 commodity offices, 50 state offices, 2,947 county offices, and a central data processing office. The 4 commodity offices are located in New Orleans, Minneapolis, Evanston, and Kansas City. Kansas City is also the location of the Data Processing Center.[3]

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[3]U.S., Department of Agriculture, Summary of 30 Years of CCC Operations, (Washington, D.C.: Government Printing Office, May, 1965), p. 8.

## Function and Authority

The Commodity Credit Corporation Charter Act, as amended, authorizes the Corporation to:[4]

1. support prices of agricultural commodities through loans, purchases, payments, and other operations;

2. make available materials and facilities required in the production and marketing of agricultural commodities;

3. procure agricultural commodities for sale to other Government agencies, foreign governments, and domestic, foreign or international relief or rehabilitation agencies, and to meet domestic requirements;

4. remove and dispose of or aid in the removal or disposal of surplus agricultural commodities;

5. increase domestic consumption of agricultural commodities through development of new markets, marketing facilities, and uses;

6. export or cause to be exported, or aid in the development of foreign markets for agricultural commodities; and

7. carry out such other operations as Congress may specifically authorize or provide for.

The Corporation's charter requires it to make as full use of private trade facilities as practicable in the conduct of its operations. The Corporation utilizes

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[4]U.S., Department of Agriculture, Compilation of Statutes Relating to Agricultural Stabilization and Conservation Service, Agricultural Handbook No. 327, (Washington, D.C.: Government Printing Office, 1967), p. 163.

the service of banks, warehousemen, land and water carriers, processors, handlers, cooperative associations, and exporters in carrying out its program. It adapts its operations wherever feasible to established trade customs and practices. It carries on its day-to-day dealings with trade elements much as would a commercial corporation conducting a business for profit.

The Corporation may contract for the use of plants and facilities for the handling, storing, processing, servicing, and transporting of agricultural commodities subject to its control. Authority has also been granted the corporation to acquire personal property and to rent or lease office space necessary for the conduct of its business.

It is prohibited from acquiring real property, or any interest in property except for the purpose of protecting its financial interests and for providing adequate storage to carry out its programs effectively and efficiently. No refrigerated cold-storage facilities may be constructed or purchased except with funds specifically provided by Congress for that purpose.

To encourage storage of grain on farms, CCC is directed to make loans available to grain producers for financing the construction or purchase of suitable storage.

CCC is authorized to barter surplus commodities for strategic, critical, and other materials produced in foreign countries.

Each year the Corporation submits in the Budget of the United States the program it expects to carry out in the coming year. Upon approval of the budget by Congress, this becomes the basic operating plan of the Corporation for the fiscal year.

Program Financing

The Congress has vested in CCC the responsibility of financing Government price support programs, commodity pruchase programs, and disposal activities, through use of its own funds and a borrowing authorization.

The Corporation has an authorized capital stock of $100 million, increased in 1936 from the $3 million issued by the U.S. Treasury in 1933, and held by the United States. The Corporation has authority to borrow up to $14.5 billion. Funds are borrowed from the U.S. Treasury and may be obtained from private lending agencies.

The Corporation's realized losses are covered by appropriations by the Congress for restoration of capital. These appropriations are used to repay borrowings, thus restoring the Corporation's borrowing power.

The programs of the Corporation are financed by capital stock, borrowing from the U.S. Treasury, guarantees to purchase notes, appropriations and advances for cost of foreign assistance programs and special activities, and receipts from operations. These operations include sales of commodities, loan repayments, and interest income.

In connection with loan guarantees, the Corporation reserves a sufficient amount of its borrowing authority to purchase at any time (1) all notes and other obligations evidencing loans made by lending agencies, (2) Certificates of Interest issued in connection with the financing of price-support operations, and (3) accrued interest on all notes and certificates.

All bonds, notes, debentures, and similar obligations issued by the Corporation are subject to approval by the Secretary of the Treasury as required by the Act of March 8, 1938.[5]

Interest on borrowing from the Treasury, and on capital stock, is paid in accordance with a policy of the Treasury that the rate shall be based upon the average interest rate on all outstanding marketable obligations (of comparable maturity date), of the United States as of the preceding month. Interest is also paid to financial institutions for the period they have their funds invested.

On the first day of each month the Treasury advises CCC of the rate of interest applicable for funds to be borrowed for the month. In order to keep interest costs reduced to a minimum, CCC borrows, or repays, each day the amount required to finance the net of the prior day's activity.

Based upon daily wires from all Federal Reserve Banks and branches, plus Washington activity, CCC computes the net amount required to cover the excess of disbursements over deposits for the prior day. This amount is borrowed from the Treasury. When deposits exceed disbursements, CCC makes a payment to the Treasury against its notes. This method not only reduces interest costs, but keeps cash on hand at a minimum level.

## Price Support Operations

The Corporation is required by law to make available price support for the specified commodities to all cooperators at a price level established by the

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[5] <u>Ibid</u>.

Secretary of Agriculture. The Corporation has little choice of risks under mandatory price support legislation. Price support must be offered in accordance with statutory requirements. The Secretary may also offer permissive price support on commodities under certain conditions as authorized by the Congress. Prices traditionally have been supported in four different ways: loans, purchase agreements, direct purchases, and payments.

## Loans

The loan technique is used extensively in supporting prices of grain, cotton, oilseeds, and tobacco. Price support loans are nonrecourse. CCC looks only to the pledged or mortgaged collateral (the commodity), for satisfaction of the loan. The farmer may repay the loan with interest at any time prior to maturity. If he does not repay, CCC takes title to the commodity, the loan is satisfied, and the farmer pays no interest. In the case of tobacco, however, the collateral usually remains in a loan status until it is finally disposed of by the tobacco cooperatives. Naval stores and peanuts are usually handled by producer associations.

Loans support prices in two major ways: (1) by providing farmers a cash return for the commodity at the support level; and (2) by strengthening market prices of the commodity through withholding supplies from the market, especially at the peak of the harvesting season.

The loan program tends to even out marketings. In order to meet operating costs, farmers are inclined to market their crops at harvest time. This sometimes

makes for market gluts, undue burdening of the transportation system, and lower prices. The loan program gives the farmers an opportunity to obtain cash and to hold their crops without risk for later marketing. This tends to spread marketing over the season, and reduces the extent of price swings.

Price support loans have been available in recent years on all supported commodities except dairy products, tung nuts, wool, and mohair. Other types of price support were available for these commodities. Since 1933, CCC has extended well over $41.9 billion in loans.[6]

## Purchase Agreements

A purchase agreement is an agreement to purchase from the farmer, at his option, a specified maximum amount of a commodity at the support price. If the market prices are low and the farmer elects to sell to CCC, he may sell only up to the stated maximum amount shown in the purchase agreement. CCC must buy, but the farmer is not required to sell.

## Direct Purchases

Purchases are used to support the prices of milk, butterfat, and their products. CCC buys butter, cheese, and nonfat dry milk from processors and handlers at

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[6]Bureau of the Budget, Appendix to the Budget for Fiscal Year 1969, (Washington, D.C.: Government Printing Office, 1968), pp. 152-167.

prices designed to result in U.S. average prices to producers for manufacturing milk and butterfat at least equal to the announced support prices.

Cottonseed prices are supported by direct purchases from ginners, and from producers whenever nonparticipation by ginners makes such purchases necessary.

To encourage exportation of various agricultural commodities, the Corporation pays export differentials to exporters either in cash or by issuance of negotiable payment-in-kind certificates.

## Payments

The Corporation also issues negotiable payment-in-kind certificates to producers as payments for acreage reduction and for price support, or makes cash advances in lieu of issuing certificates to producers who request the Corporation's assistance in marketing their certificates. All payment-in-kind certificates are redeemable in commodities from the Corporation's price-support inventories. Some certificates are redeemable in cash under certain circumstances.

## Commodity Inventories

One of the by-products of the price support program is a commodity inventory. CCC acquires, and is responsible for, stocks of various farm products.

A large inventory creates a number of problems. It can have a depressing effect on market prices; it creates the possibility of waste; and it runs up heavy storage charges. The Corporation's concern and interest is to find useful outlets

through which it can dispose of its excess stocks, within its authorities and the directives of the Congress.

Commodities from the price-support inventory are moved into consumption outlets in various ways. Some are sold in the United States for dollars. In export channels, commodities are sold for cash, on credit, and for foreign currencies.

In addition to those used under a "payment-in-kind" program to stimulate commercial exports, some are bartered for strategic and critical materials produced abroad and for materials procured abroad by other government agencies.[7]

Inventories are not acquired and held by the Corporation for resale at a profit. Price-support inventories are acquired when demand is not sufficient to absorb supplies at the support prices and when farm prices are below the support levels. The inventories held under the supply and foreign-purchase program represent inventories in transit to destination. The inventories of strategic and critical materials acquired by barter of agricultural commodities are held temporarily, pending transfer to other U.S. Government agencies for use of stockpiling. The stocks of commodities held by CCC are acquired in two principal ways:

- through the takeover of commodities pledged as collateral for price support loans; and
- through purchases—either from processors or handlers, as in the case of dairy products, or from producers under purchase agreements.

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[7] Ibid.

Supplies of some commodities have substantially exceeded foreseeable needs for carryovers or emergency reserves. Big supplies mean heavy storage costs, and the cost of storing CCC inventory stocks at various times has run well over a million dollars a day. Finally, movement of large inventory holdings into consumption, because of changes in price levels, deterioration, sales at special export prices, and donations, can result in substantial financial losses to CCC.

The idea has been advanced through the years by various groups or individuals that one certain way for CCC to reduce its inventory and cut costs would be to have a fire sale, or a bargain sale, to dump all commodities at the best price offered. The answer is not that easy. Disposal policies of CCC are dictated, first, by law, and second, by what is workable administratively. The inventory can be disposed of only in those ways that have been provided by the Congress, both at home and aborad. The Corporation's further function and responsibilities are to insure that movements of surplus stocks do not undermine farm income, disrupt normal trade operations, or put the private trade to a disadvantage.

## Surplus Removal

For domestic movement of commodities from CCC inventory, Section 407 of the Agricultural Act of 1949 directs CCC to give consideration to establishing prices, terms, and conditions that will not discourage or deter manufacturers, processors, and dealers from acquiring and carrying normal inventories of the

current crop.[8] For example, a flour miller would probably be "discouraged or deterred" from buying and storing wheat in July at $1.82 a bushel if he had good reason to believe that in October he could buy wheat of the same quality from the Government for $1.72 a bushel.

A more specific directive in Section 407 provides that CCC shall not in general sell any basic storable or any nonbasic commodity in the domestic market at less than 5 per cent above the current support price for the commodity, plus reasonable carrying charges.

The objective of this provision is three-fold: (1) to protect private enterprise operations, (2) to guard against sharp fluctuations in markets, and (3) to preclude driving market prices down by movement of commodities at prices below the support levels.

There are exceptions to the general restrictions on sales. The Section 407 minimum sales price limit does not apply, among other things, to sales of peanuts and oilseeds for extraction of oil, sales for new products or exports, or to domestic sales of commodity stocks which have deteriorated or are in danger of deterioration.

Sales for dollars, both for domestic and export use, have been the biggest single outlet for Corporation-owned surplus farm products. CCC sales activities are handled principally by the regional ASCS commodity offices.

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[8] U.S., Department of Agriculture, Agricultural Handbook No. 327, pp. 157-171.

Sales by the commodity offices are made primarily through competitive bids on definite quantities and qualities. Information on CCC-owned commodities available for sale and the terms of sale are contained in a Monthly Sales List issued by CCC on the last day of each month and effective for the following month. The list, which changes from month to month as CCC's inventory position changes, helps buyers of CCC-owned commodities to negotiate sales. The list is distributed to some 10,000 potential buyers.

The Corporation is directed to make available to the Secretary of the Interior price-support grain acquired and in inventory, if available and undesirable for human consumption, to be used as feed for migratory waterfowl. The Secretary of the Interior is also authorized to requisition CCC grain for feeding starving migratory birds. In addition, any state may requisition grain upon the finding of the Secretary of the Interior that resident game birds and other resident wildlife are threatened with starvation.

Substantial quantities of food commodities are transferred to other agencies, on either a reimbursable or nonreimbursable basis, for eventual donation to the needy, to school lunch programs, Veterans Administration and Armed Forces hospitals, needy Indians on reservations, and through approved welfare organizations to needy persons abroad.[9]

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[9] U.S., Department of Agriculture, Yearbook of Agriculture, 1962, (Washington, D.C.: Government Printing Office, 1963), pp. 594, 601.

## Export Programs

The United States is the world's leading exporter of agricultural products, accounting for one-fifth of the world's total.[10]

Agricultural exports make up about 15 per cent of the marketings of American farmers, and account for 26 per cent of total U.S. exports.

The export market absorbs the production from one out of every four acres on which a harvested crop is grown. The foreign market takes three-fourths of the wheat American farmers grow, a fourth of farmer's sales of feed grains, and one-third of cotton.

The Corporation directs and promotes the export of agricultural commodities by sales for dollars, through barter, and the foreign assistance programs largely directed by the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480). Farm exports have been running well ahead of imports since the mid-fifties, averaging $4.6 billion annually.

Commercial export sales from CCC inventories are not subject to price restrictions, as is the case with domestic sales. Nevertheless, the Corporation meets obstacles to sell surpluses and to promote the sale of products in export markets, including the facts that: (1) importing countries have stepped up their own agricultural production; (2) the pricing of farm surpluses must be done with great care to avoid damaging the economies of nations friendly to the United States,

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[10] Ibid., pp. 597-603.

and (3) there is not too much of a foreign market for some of the commodities that are in heaviest U.S. supply.

To make it possible for U.S. exporters to compete on even terms in the highly competitive foreign markets, and to move additional quantities of commodities into consumption, CCC makes export payments either in cash or in the form of commodities amounting to approximately the difference between the U.S. price and the world price. These payments are designed to stimulate movement of commodities from commercial stocks and to provide an outlet for Corporation-owned stocks.

Since 1949, the Corporation has bartered large quantities of surplus farm products for needed foreign-produced materials. A major benefit of the barter programs has been to protect the U.S. balance-of-payment position by: (1) using surplus commodities to procure strategic and critical materials for stockpiling and defense needs, and (2) using surplus commodities, since 1963, in various types of foreign procurement programs conducted by the Department of Defense, the Agency for International Development, and other agencies of the United States.

In 1957, restrictions were placed on the countries to which such exports could go, based upon an assessment of each friendly country as a market or potential market for U.S. exports. This was designed to prevent barter exports from unduly disrupting world agricultural prices or replacing dollar sales.

Barter transactions are carried on through regular commercial trade channels under specified delivery terms and conditions. Conditions are specified under which agricultural commodities will be delivered. Barter contracts generally run from periods of a few months up to two years. Contractors are required to furnish cash

or irrevocable letters of credit for the total value of any farm products received in advance of material deliveries.

All agricultural commodities for barter must be exported to approved friendly nations. If ocean transportation is involved, at least 50 per cent of materials being acquired under the transaction must move in U.S. flag ships. Both the farm products elibible for barter and the foreign-produced materials that may be accepted under barter transactions vary from time to time. Commodities eligible for barter have included cotton, tobacco, rice, wheat, corn, oats, barley, sorghum grain, soybeans, butter, and nonfat dry milk. All proposed barter transactions are carefully judged for the effect they may have on U.S. foreign policy, on balance of payments, and on dollar sales.

For more than thirty years the Commodity Credit Corporation has functioned as the fiscal agency of the United States for national farm commodity programs — domestic and foreign. Since 1933, when the CCC was created to supplement the Agricultural Adjustment Administration, American agriculture with ever higher levels of efficiency and productivity has moved to a pre-eminent position in the international economy, has become a pivotal force in foreign trade, and has become a vital factor in international affairs. The scope and function of U.S. farm programs and the activities of CCC have been broadened as needed to support American farmers and consumers world-wide. In all of these programs and activities, the guiding principle has been and is to make the fullest use of private facilities and established commercial agencies so that all may work together with the Government for maximum economy and efficiency in administering a very large subsidy.

## CHAPTER III

## DETERMINATION OF SUPPORT PRICES

Under the price support programs, the Government makes a commitment to provide support to individuals for eligible commodities at specified levels. If the level specified is too high, too large a portion of available resources will be spent to subsidize the farmers. If the level is too low, the incentive offered the farmers will not be adequate to encourage participation. Therefore, to achieve the goal of stabilizing prices for specified farm commodities to keep production in line with market demand, it is necessary to determine proper support prices.

The level of price support directed or authorized by price support legislation is usually expressed in terms of parity rather than in dollar-and-cents prices. The amounts, terms, and conditions of price support operations and the extent to which such operations are carried out is determined or approved by the Secretary of Agriculture.[1]

In the process of translating the legal authorizations into dollars and cents, the Secretary must consider the following factors:[2]

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[1]U.S., Department of Agriculture, Agriculture Handbook No. 327, pp. 183-184.

[2]U.S., Department of Agriculture, BI No.4, Price Supports, p.3.

- The supply of the commodity in the relation to demand therefore— The supply of wheat available for the proposed program years is based on the estimation of carrying stocks, production, and imports. The estimates are usually developed by an interagency committee. The committee is constituted of representatives of several agencies within the Department that are concerned with the subject matter and who are informed on the particular commodity involved. Estimates are developed from current and past reports on stocks in all positions and crop production data issued by the Statistical Reporting Service. Supplementary data by the Economic Research Service on yields, trends, and adjustments for abnormal weather conditions are considered in developing estimates.

Estimates on utilization, domestic usage, and exports, are developed by the interagency committee largely from available reports on the use of the commodity for food, feed, industrial use, and seed. Export data are usually furnished by the Foreign Agricultural Service, USDA.

- The price levels at which other commodities are being supported— Price support for wheat and various feed grains (corn, grain sorghum, barley, oats, and rye), are required to be at a level which takes into account their feeding value. In the case of wheat, consideration is given to the competitive world price of wheat, feeding value of wheat in relation to feed grains, and the levels at which price support is made available for feed grains.

- Availability of funds—Costs to the Government depends on the program provisions. On the basis of the type program proposed and its provisions, fiscal authorities develop estimates of cost involved. Items to be considered are loan and

price support activities, (including payments to encourage participation), inventory activities such as sales and recoveries, carrying charges for commodities in storage, and administrative expenses. A review is also made as to whether funds are available for the program.

- Perishability of the commodity—Wheat and feed grains are storable for a sufficient length of time to allow for orderly disposition of grain acquired under a price support program. Grains are not generally considered perishable in temperate climate, but in high temperature areas, provisions would have to be made to dispose of corn, for example, after a relatively short storage period unless temperature controlled warehouses are available.

- Importance of commodity to agriculture and national economy—Estimates of the number of farms and producers in the country are made. Consideration is given to the needs of the commodity for food, feed, seed, industrial uses, and for export use. The importance of its production for domestic requirements and export for the maintenance of a sound national economy and general welfare of the public. The estimated value of the crop and the contribution it will make to farm income. Its importance in relation to other farm crops.

- Ability to dispose of stocks acquired through price support operations—Estimates of loan and purchase activity and inventory activity are made by commodity people in cooperation with fiscal authorities. Estimates are developed showing the quantity of loans that will be made, repayment of loans that are expected, and collateral that will be acquired by CCC. On inventory activity, estimates are made showing the total acquisitions of the commodity, total disposition, and breakdown

by various markets such as export and domestic, under which the disposition of the commodity might be made. In each case, whether loan or purchase program or acquisition and dispositions, the average unit rate is also shown.

- Need for offsetting temporary export losses—Production in major producting countries is investigated to indicate the possible need for national crop for export during the marketing year. In the case of wheat, statistics are tabulated to show historically world trade in wheat and flour (wheat equivalent), and estimates projected to indicate export requirements for the wheat producing countries.

A large percentage of total U.S. wheat (grain only), exports moves under Government programs while a much smaller volume moves in commercial channels (dollar sales).

- Ability and willingness of producers to keep in line with demand—Price support programs are designed to either balance production against requirements or encourage increased agricultural output. Acreage diversion programs are designed to curtail production. In order to encourage producers to participate in a supply-management program, they are paid to divert cropland acreage from production of a commodity to conservation uses. To obtain increased production, it will be necessary to raise price support loan rates. If funds are available, incentive payments can be utilized to increase production. Estimates are made of the number of producers expected to participate.

In addition to considering these factors, a summary of economic data on projected program results at recommended levels is developed. Numerous program

alternatives and cost studies are developed and considered before final determination is made on price support levels.[3]

The wool program is specifically designed to encourage domestic production, the Secretary considers additional factors such as (1) prices paid by farmers for commodities and services, (2) interest, (3) taxes, and (4) farm wage rates in determining the price support levels (incentive price).[4]

The producer sells his shorn wool in normal marketing channels then applys for an incentive payment through the local ASCS office. The rate of payment is based on the difference between the previously announced incentive price and the U.S. average price received for wool sold during the marketing year. For example, the announced incentive price for the 1966 marketing year was 65 cents per pound of shorn wool. Producers actually received an average price of 52.1 cents (12.9 cents below the support level). To bring producer returns to the support level, each producer received a payment amounting to 24.8 per cent of the amount received for wool in the 1966 marketing year.[5]

The higher the price obtained in the open market, the higher the payment. For example, the producer who sold high-quality wool at 70 cents per pound got a payment of 17.4 cents per pound, whereas the producer who marketed wool at 20

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[3]Albert Krueger, Price Support Branch, Farmers Programs Division, ASCS, U.S. Department of Agriculture, Personal Interviews on November 22 and December 4, 1968.

[4]U.S., Department of Agriculture, Agriculture Handbook No. 327, pp. 200-203.

[5]U.S., Department of Agriculture, Agriculture Handbook No. 345, pp. 35-36.

cents a pound got a pyament of only 5 cents per pound.[6] In addition to encouraging production of wool, wool growers are encouraged to produce higher quality wools.

The incentive price for wool or unshorn lambs (pulled wool) is based on the incentive price for shorn wool. It is set at a level which will discourage unusual shearing of lambs prior to marketing.

Each grower who sells unshorn lambs is eligible for a payment provided he has owned the animals for 30 days or more. Payments are based on the live weight of lambs marketed. Payment to each grower is made on the weight or weight increase of the animals at the time he sells them.

Payment to growers who buy unshorn lambs and later shear them are subject to a downward adjustment in any shorn wool incentive payment they apply for. The downward adjustment is the amount of the lamb payment that the previous owner was eligible to receive.

Most support levels are national average prices, representing the average of all classes and grades of a commodity as sold by all farmers at their local markets. To determine most support prices to producers, the national price is adjusted to reflect the factors that influence the price at local markets.

Grade and quality ranges for many commodities are wide and are reflected in market values. Location of a commodity is significant in relation to its value. Price differences arise from the varying kinds of a commodity produced, such as variety, class, or type. These and other factors in varying degrees affect the

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[6] Ibid.

market prices that individual producers get for their production. Likewise, they are recognized in the support operation to gear it into the marketing system. This is necessary to minimize price distortions and supply disruptions and to maintain normal end-use relationships within and between commodities. Thus, the national average price is converted into specific support prices for specific qualities at specific locations and is set forth in a "price support schedule" for the particular commodity.[7]

Average or normal spreads are established among different varieties, classes, or grades and between different markets, methods of sale, or locations. These differentials are adjusted or recalculated periodically, usually yearly for most commodities, to adjust to change in (1) relative market prices; (2) methods of processing; (3) marketing and transportation costs; and (4) the distribution of supplies relative to demand.

This is in line with Section 403, Agricultural Act of 1949, which provides that "appropriate adjustments may be made in the support price for any commodity for differences in grade, type, staple, quality, location, and other factors. Such adjustments shall, so far as practicable, be made in such a manner that the average support price for such commodity will, on the basis of the anticipated incidence of such factors, be equal to the level of support determined as provided in this Act."[8]

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[7] John E. O'Cain, Farmers Programs Divisions, ASCS, Department of Agriculture, Personal Interviews on November 22 and December 4, 1968.

[8] U.S., Department of Agriculture, Agriculture Handbook No. 327, p. 188.

The effects of these factors on support prices varies considerably from commodity to commodity in line with market practices and price variations. For example, cotton has a wide range of quality as indicated by grade and staple length. This results in more than 500 specific support rates for the various qualities of cotton. Thus, while the national average loan rate for 1968 crop cotton was 19.69 cents per pound, actual loan rates ranged from 9.9 to 30.55 cents per pound, depending on quality. These prices are furhter adjusted for fineness and maturity of the fiber as determined by micronaire readings and by location differentials to get actual producer loan rates.[9]

A basic loan rate is determined for most grains for each producing county. These county loan rates reflect the national average loan rate taking into consideration the long-time price relationships among the many counties and producing areas. For some grains, loan rates at terminal locations are set in addition to the county loan rates. The basic county and terminal loan rates are adjusted up or down for quality and grade premiums and discounts to arrive at support prices.

For example, nearly 3,000 county loan rates and more than 40 terminal loan rates are set for wheat. While the national average loan rate for 1968 production was $1.25 per bushel, basic county loan rates ranged from 92 cents to $1.56 per bushel for U.S. No. 1 wheat. These were subject to further adjustment by class premiums and discounts, grade premiums and discounts, discounts for impurities and contaminated wheat and for undesirable varieties, and premiums

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[9] U.S., Department of Agriculture, BI No. 4, Price Supports, p. 23.

for protein content. These range from a premium of 18 cents per bushel to discounts of more than 30 cents per bushel.[10]

There always is some portion of a crop not eligible for price support due to poor quality. The proportion varies from year to year. As a general rule, price support is limited to merchantable grades. Obviously, prices for ineligible grades, qualities, and classes may drop to lower levels, depending upon the demand for them. This low level in turn, can affect prices of better grades in years of large supplies, and the average price received by farmers for all grades and qualities. Thus, in some years when unusual quantities of the crop are low grade, generally due to weather, support is extended to lower qualities in order to maintain price support level for the whole crop.[11]

As stated previously, price support legislation expresses price support levels in terms of percentage of parity price rather than dollar and cents prices. In general, the parity price is that price which will give an agricultural commodity the same purchasing or buying power in terms of goods and services farmers buy that it had in the base period 1910-1914.[12]

Insofar as practicable, the price support levels (after translation to dollars and cents) are announced early enough before planting or marketing seasons for each commodity so as to enable producers to plan and gear their farm operations to the program.

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[10]O'Cain, Interview.

[11]Krueger, Interview.

[12]U.S., Department of Agriculture, Agriculture Handbook No. 345, pp. 19-20.

The ASCS state and county offices are supervised and directed by the Agricultural Stabilization and Conservation Service, but each is administered by a committee at the county level—3,065 in the 50 states in 1968 — that is elected by the producers. At the state level, members are appointed by the Secretary of Agriculture.

The county ASCS office, generally located at the county seat, is the producer's local point of contact in the case of most supported commodities. County office personnel assist the producer in the preparation of price support documents; check his eligibility for price support—adequacy of farm storage facilities, compliance with farm acreage allotments—and keep him informed concerning program details.

Local county offices report information on the number and magnitude of producer participation through the state offices to the Data processing Center at Kansas City on a monthly basis. These data are compiled into a comprehensive report showing total monthly activity by local area and commodity. This report showing total monthly activity by local area and commodity. This report is distributed to the interested divisions throughout the Department of Agriculture then made available to the public. It serves as an indicator of price support programs activity.[13]

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[13]O'Cain, Interview.

# CHAPTER IV

# RELATED PROGRAMS

Continuous attempts to adjust the agricultural industry have resulted in the implementation of a number of farm programs. The primary objective of some of these programs has not been adjusting the supply of available commodities, but have aided in adjusting the production and marketing of farm crops. Adjustments may be made to either increase or decrease production depending upon the commodity or policy concerned. It is desirable to examine some of these programs to demonstrate the different approaches to adjusting or controlling segments or phases of this industry and show their relationship to the price support programs.

## Production Adjustment Programs

Programs designed to decrease or increase the amount of individual commodities produced include:[1]

- acreage allotment,
- marketing quotas,
- commodity acreage diversion, and
- the sugar program.

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[1] U.S., Department of Agriculture, Agriculture Handbook No. 345, pp. 27-38.

Acreage allotments and marketing quotas were authorized by the AAA of 1938, as amended, for tobacco, wheat, cotton, rice, and peanuts. Commodity acreage diversion programs are authorized by the Food and Agriculture Act of 1965. These programs are administered by the ASCS.

Basically, these programs are designed to adjust production through acreage allotments and will be supplemented, if necessary, by marketing quotas. Both of these are augmented by diversion programs. Thus, acreage allotments may be used alone or in combination with either marketing quotas or commodity acreage diversion programs.

The Secretary of Agriculture and his staff determine the amount of the national acreage allotment for each commodity concerned. In general, the national acreage allotment for any commodity is considered the acreage, together with carry over and imports, which is adequate to meet the demands for domestic use, export, and for reserve needs. The national acreage allotment is apportioned equitably among individual farms that have a history of production for the particular commodity.

A farmer must comply with the acreage allotment established for his farm for the crop concerned to be eligible for price support. There are some exceptions because the Secretary of Agriculture is authorized to permit support to noncooperators at such rates (not in excess of those to cooperators), as he determines will facilitate the effective operation of the price support program.[2] This authority has

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[2]U.S., Department of Agriculture, Agriculture Handbook No. 327, pp. 171-186.

seldom been used. One notable exception was in the late 1950's; support was made available to noncooperating producers of corn.

The Secretary of Agriculture must provide a reasonable period of time before harvest within which acreage of a commodity, in excess of the allotment for the crop, may be adjusted by the farmer to meet the requirements of the program. If the farmer desires, he may have his land measured by the local ASCS officials for a small fee prior to planting to ensure that he does not over plant the allotment established. By doing this, any expense that might arise from overplanting is avoided.

The Secretary may terminate or increase allotments or quotas when he deems it necessary to meet national emergencies or whenever there appears to be significant increases in the export market.

When demand for supplies of certain commodities are very large, marketing quotas may be used in conjunction with acreage allotments. At least two-thirds of the producers of the commodity voting in a referendum must approve the quotas for that commodity.

In the marketing quota program, the first consideration is quantities.[3] For cotton, peanuts, and tobacco, quantities representing adequate supplies are determined in terms of bales, tons, and pounds, respectively. These quantities of cotton and peanuts are converted to national acreage allotments on the basis of average yields. The national quota for tobacco is apportioned to states. The states

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[3]The legislation authorizing this program specifies the formula for determining quantity levels for each commodity.

convert these tonnages into acreage allotments for individual producers.

If tobacco growers, when voting in a referendum, do not approve quotas for a particular kind of tobacco, there can be no support for that kind. For other basic quota crops, disapproval by growers means that price support may be made available to cooperators only at 50 per cent of the established support price. In this as with acreage allotments, the Secretary of Agriculture can make support available to noncooperators to facilitate effective operation of the program. This support can not be in excess of the level for cooperators.

For some commodities, criteria have been established whereby marketing quotas must be proclaimed. A quota for peanuts must be proclaimed each year regardless of the supply situation. In the case of wheat, a quota is proclaimed if it appears that the total supply will likely be excessive in the absence of a marketing quota program.

For some commodities such as cotton, rice, and peanuts, minimum national marketing quotas are specified. For example, the national marketing quota for peanuts cannot be less than the level which would provide a national acreage allotment of 1,610,000 acres.

The marketing quota for an individual farm is essentially the quantity produced on the acreage allotment for the farm. In the case of cotton, wheat, and rice, the producer becomes subject to a specified penalty if he produces the commodity in excess of the farm quota. However, the penalty on wheat and rice may be avoided by storage of the excess or delivering it to designated facilities. A producer of tobacco or peanuts becomes subject to the penalty when he markets

the commodity. If the commodity is flue-cured tobacco, the penalty does not accrue until the producer has marketed in excess of 110 per cent of the acreage-poundage tobacco quota for the farm. To illustrate the severity of this penalty, for wheat and rice, the penalty for exceeding the quota is 65 per cent of the parity price; for peanuts, 75 per cent of the support price; and for tobacco, 75 per cent of the preceding season's average market price.[4]

Because commodity acreage programs are aimed at reducing excess production of specified commodities, and maintaining and improving the income of farmers, the primary consideration is quantity of the commodity on hand and the projected production for the coming year. The Secretary of Agriculture may utilize acreage diversion programs for feed grains, wheat, cotton, and rice. He enjoys considerable flexibility in the employment of this means of production control. As an example, no diversion program was in effect for the 1967 or 1968 wheat crops, but participating farmers in 1969 must divert at least 15 per cent of their wheat acreage allotments to be eligible for price supports.

Diversion payments to the participating wheat farmers are authorized on additional voluntary diversion up to 50 per cent of the farm allotment. However, farmers with allotments of 21.7 acres or less may divert the entire allotment for payment.[5] Per acre payment rates are 50 per cent of the county wheat loan rate times the farm's projected yield per acre.[6] For example, if the county loan rate

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[4]U.S., Department of Agriculture, Agriculture Handbook No. 345, p. 30.

[5]U.S., Department of Agriculture, ASCA Commodity Fact Sheet, 1969 Wheat, p. 2.

[6]The projected yield is based on average yield per acre for the last five years.

was 90 cents per bushel and the projected yield was 24 bushels per acre, the per acre payment would be $10.80 (45 cents x 24 bushels).

The Secretary of Agriculture's flexibility extends beyond determining if there will be a diversion program for a given commodity during a specific year. He may vary the criteria so that only a part of the farmers producing a given commodity are eligible to participate.

In 1967, there were no payments in the feed grain program except to small farms (with acreage allotments of 25 acres or less), and to farms electing to divert all feed grain acreage. Small farm operators to be eligible were required to divert a minimum of 20 per cent of their feed grain acreage allotments. Diversion payments for these small farms was determined in the following manner:[7]

1. On the required minimum divertable acreage: 20 per cent of the acreage allotment times the projected yield, at 20 per cent of the support price; and

2. For additional acreage diverted: the number of acres times the projected yield, at 50 per cent of the support price.

The Secretary has the authority to specify alternate nonsurplus crops which may be grown on acres diverted from production of these commodities, provided the production of these crops is needed to assure an adequate supply, will not adversely affect farm income, and is not likely to increase the cost of the price support program. He may specify other approved conservation uses of the diverted acreage.

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[7]Krueger, Interview.

The control over the production of sugar is important to this study because of its similarity to the wool program. The domestic production of these commodities is inadequate for domestic consumption and to satisfy the need for foreign trade. The specific objectives of the sugar program as outlined by the Sugar Act of 1948 are:

1. to maintain a healthy domestic sugar industry,

2. to provide adequate supplies of sugar for consumers at fair prices, and

3. to promote international trade.

These objectives are achieved by the adjustment of supplies of sugar that may be marketed in the United States.[8]

Through an amendment to the Internal Revenue Code, the Sugar Act imposes a tax of 53 cents per hundred pounds of sugar, raw value, on all beet or cane sugar processed in the continental United States for direct consumption. An equivalent duty is imposed on imported direct-consumption sugar.[9]

The Secretary of Agriculture determines the amount of sugar which will be needed to fill continental U.S. requirements during each year. This determination is made during the fourth quarter of each year for the following year and is revised later if the needs change. It establishes the quantity of sugar that may be marketed

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[8] U.S., Department of Agriculture, Agriculture Handbook No. 327, pp. 311-334.

[9] Ibid., p. 339.

in the United States during the year. After the Secretary has determined overall requirements, domestic and specified foreign producing areas supplying the United States with sugar are assigned quotas representing their shares of the market.

An important function of the sugar program is to promote orderly marketing. Quotas for a domestic area are alloted to the processors when found necessary to:

1. insure the orderly flow of sugar,
2. prevent disorderly marketing, and
3. afford processors an equitable opportunity to market sugar within an area's quota.

In the domestic areas, the Secretary must ensure that each sugar-producing farm gets its share of the available market. In dividing this market, he must allow for enough sugar to fill the quota for the current year and to provide a normal inventory. Production is unrestricted on all farms if the crop prospect indicates that production will be inadequate to fill the quota and provide normal carryover. When it is determined that production plus carryover is likely to be greater than the demand, restrictive proportionate shares are established for each producing unit.

Payments are made to domestic producers of sugar beets and sugar cane who comply with established criteria. These criteria involve compliance with proportionate shares, nonemployment of child labor, payment of fair and reasonable prices for sugar beets and sugar cane purchased from other producers, and payment of fair and reasonable wages. Special conditional payments are also authorized for crop deficiency or abandonment of planted acreage caused by natural disasters. As a result of the sugar tax discussed previously, receipts

under the sugar program have exceeded Government outlays by approximately $550 million since the program was started in 1934.[10]

When sugar prices have been extremely high in the free world market as in some periods, the quota system has assured United States consumers adequate supplies of sugar at reasonable prices. Under normal circumstances, the limitation that the quota system puts on total marketing of sugar in the United States brings about what is called a "quota premium." The premium is the difference, over and above duty and freight, between the price at which raw sugar is sold in the United States and the so-called "world free market price" for sugar.[11] Thus, the quota system does, under most circumstances, make prices to consumers higher than might otherwise prevail. More importantly the system insures the production of a substantial part of the sugar requirements within the continental United States in the interests of National Security.

## Conservation and Land Use Programs

Conservation and land use programs are designed to aid farm and ranch owners and operators in making changes in their cropping systems and land uses to

- change permanently, to better productive use, cropland that is not well suited for crop use, and

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[10]U.S., Department of Agriculture, Agriculture Handbook No. 345, pp. 37-38.

[11]U.S., Department of Agriculture, ASCS, BI No. 19, the United States Sugar Program, (Washington, D.C.: Government Printing Office, December 1966), p. 16.

- temporarily shift to other productive uses, land that is suitable for crop use, but is not currently needed for crops that are in oversupply.

Some of the more significant of these programs are the Cropland Conversion Program, Conservation Reserve Program, and Cropland Adjustment Program.[12]

The Cropland Conversion Program, authorized by the Soil Conservation and Domestic Allotment Act of 1935, as amended, is aimed toward helping farmers and rachers stay on their farms and ranches, find better use for their land, and earn income from the land by using it for purposes other than surplus crop production by growing grass and trees or developing recreational and wildlife facilities.[13]

Agreements with farmers are authorized for a maximum of 10 years, depending upon the type of land being converted and the type of project to which conversion is being made. Adjustment and cost share payments made to the farmers and ranchers are not income payments, but rather are intended to provide limited assistance to help shift cropland to alternate income-producing uses. The amount of assistance to the farmers and ranchers is based on such factors as land productivity, type of conversion, use to which land is being converted, changes in operating cost, and the conservation measures needed by the land in its new use.

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[12]Should land which is the subject of an agreement between landowners and the Secretary of Agriculture under one of these programs be sold, the new owner is bound by the agreement until its normal expiration.

[13]U.S., Department of Agriculture, Agriculture Handbook No. 327, pp. 3-25.

The Conservation Reserve Program (better known as the Soil Bank), was authorized by the Soil Bank Act of 1956 and repealed by the Food and Agriculture Act of 1965.[14] This was a voluntary program under which the Secretary of Agriculture was authorized to enter into three to ten year contracts with farmers to withdraw specified acreages of cropland from production and to institute conservation practices on those acreages. Those contracts which were in effect at the time the Act was appealed remained in effect. All but a few contracts will have terminated by 1970.

The objectives of the Conservation Reserve Program were to assist farmers in diverting part of their cropland from production of excessive supplies of commodities and to assist them in protecting their soil, water, forest, and wildlife resources. The farmers receive annual rental payments each year of the contract period in return for removing designated cropland from production and for establishing necessary conservation practices on that land.[15]

Farmers who participated in this program were not permitted to harvest crops from the reserved acres or graze them, except when granted special permission in emergencies. If such permission were granted, payments were reduced to compensate for use of the land.

The Cropland Adjustment Program was created by the Food and Agriculture Act of 1965 which repealed the Soil Bank Program.[16] It was designed to be a long

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[14] Ibid., pp. 35-47.

[15] Designated cropland denotes land regularly used in the production of crops.

[16] Ibid., p. 27.

range program. The objectives as outlined by the Act were to establish, protect, and conserve open spaces and natural beauty, and to prevent air and water pollution through long term agreements with farmers to divert land from the production of crops to uses that will promote development and conservation of soil, water, forest, wildlife, and recreational resources. A special provision of the program makes grants to local and state governments to help them acquire cropland for permanent public use to meet community needs for recreation, beautification, wildlife conservation, and prevention of air and water pollution.[17]

The Secretary of Agriculture may enter into agreements with farmers to divert, for periods of not less than five nor more than ten years, acreage being used for production of raw grain or tame hay crops to productive conservation use from which a crop generally cannot be harvested or pastured. The participating farmers receive adjustment payments for each acre diverted and cost-sharing assistance to help establish the minimum needed protective conservation use. Those participants in selected areas who agree to permit free public access for fishing, hunting, hiking, and trapping may get an additional per acre payment. The Secretary may make annual adjustment payments in advance of performance. In these cases, the payment must be reduced by 5 per cent for each year the payment is to be advanced.

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[17] Sometimes referred to as the Greenspan Program.

## International Wheat Agreement

The International Wheat Agreement Act of 1949, as amended, operated through July 31, 1967 to gain an assured market for wheat to exporting countries at stable and equitable prices.[18] Under the provisions of this Act, the CCC made wheat and flour available for export and made Payment-in-Kind payments to the exporters for the difference between the prevailing sales price of wheat under the agreement and the domestic market price. A cash payment for the differential was made for flour. More than 2.4 billion bushels of American wheat and wheat flour were exported under the International Wheat Agreement.

The International Wheat Agreement was terminated and replaced by the more comprehensive International Grains Agreement.[19] The pricing provisions of the IGA require minimum and maximum prices for U.S. wheat for export as well as wheat for export from other major-producing countries. These minimum and maximum prices for U.S. wheat were established on a f.o.b. basis for both Gulf and Pacific Northwest ports.

When U.S. market prices for a class of wheat are above world levels, the Department of Agriculture makes export subsidy payments to exporters to enable them to compete in world markets. These payments reflect the approximate amount per bushel that U.S. prices are above world prices. In those instances, exporters

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[18] U.S., Department of Agriculture, CCC, Summary of Operations, p. 41.

[19] Hereafter the International Grains Agreement will be referred to as IGA.

can price wheat to importers at levels below the U.S. price and be competitive with other exporting countries in world markets.

When U.S. market prices are below price levels based on IGA minimums, exporters make payments to the Department of Agriculture.[20] These payments are included in the price charged importers, thus maintaining U.S. export-prices at the IGA minimums. If payments made by exporters to the Department of Agriculture over a marketing year amount to more than the subsidy payments they receive from the Department, this difference is prorated among wheat producers participating in the wheat program. Therefore, the benefits of the established minimum prices can be reflected in wheat farmers' incomes.

The programs described in this chapter are designed to aid in adjusting and stabilizing the production and marketing of farm crops. This effort to keep supplies in line with the demand requires close coordination with the price support program. Those programs that emphasize conservation provide assistance to farmers and ranchers who because of age, off-farm employment, or other personal adjustment reasons desire to reduce their farming or ranching operations. Additional benefits resulting from such programs include long-range income-producing uses of diverted crop land such as growing trees and grass, water storage, wildlife habitat improvement, and development of recreational facilities.

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[20] These payments are in the form of export certificates and are inverse subsidies.

# CHAPTER V

# WHEAT AND WOOL PROGRAMS

The primary objectives of the price support programs are to control or adjust the amount of designated commodities produced to aid in maintaining a favorable balance of supply and demand of agricultural products. Wheat and wool programs have been chosen for examination to evaluate the effectivenss of price support as a mechanism to both decrease and increase production to the desired level. Other results or "spinoffs" such as farm income stabilization are beyond the scope of this study.

## The Wheat Program

Secretary of Agriculture Freeman testifing before the U.S. Senate Committee on Agriculture and Forestry on April 24, 1968, stated that it was necessary to maintain a reserve of approximately 400 million bushels of wheat to avoid possible supply shortage situations.[1] This amount will be used as a standard for evaluating

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[1]U.S., Congress, Senate, Committee on Agriculture and Forestry, Farm Program and Farm Bargaining, Hearings, before the Committee on Agriculture and Forestry on the Operation of Programs Established Pursuant to the Agricultural Act of 1965, 90th Cong., 2d sess., 1968, p. 605.

the effectiveness of price support and related programs in adjustment of the production of wheat.

The mechanics of price level determination and the manner in which the price support program is administered were discussed in Chapter III. Price support programs have been in effect for wheat since 1938, but this study will be limited to the last twenty years, 1949-69. The price levels as established by Congress and translated into dollars and cents by the Department of Agriculture for that period are shown in Table 1.

The price levels shown for 1966-68 are for wheat which was designated for domestic food. The support price for export designated wheat was only $1.25. The participating farmers were issued marketing certificates in the form of cash equivalent for their share of the crop for domestic food use. The Secretary of Agriculture determines the portion of the crop which will be needed for domestic food use on an annual basis.

The average price to farmers shown for this same period is a blended average price to program participants, reflecting national average price received by farmers and the marketing certificate value averaged for the participants total production. As an example, for crop year 1967, the support loan price was $1.25 per bushel, the domestic marketing certificate value was $1.36 per bushel thus making the total support price for domestic food wheat $2.61. The average price to farmers from wheat sales was $1.39 per bushel, but when the marketing certificates were averaged in, the blended average price to program participants was $1.87 per bushel.

TABLE 1

Price Levels Expressed in Parity and Dollar Terms
and Average Price Received by Farmers
Crop Years 1949 Through 1969

| Crop Year | % Parity | Price (per bushel) | Average Price Received By Farmers (per bushel) |
|---|---|---|---|
| 1949 | 90 | $1.95 | $1.88 |
| 1950 | 90 | 1.99 | 2.00 |
| 1951 | 80-90 | 2.18 | 2.11 |
| 1952 | 75-90 | 2.20 | 2.09 |
| 1953 | 90 | 2.21 | 2.04 |
| 1954 | 90 | 2.24 | 2.12 |
| 1955 | $85\frac{1}{2}$-90 | 2.08 | 1.98 |
| 1956 | 75-90 | 2.00 | 1.97 |
| 1957 | 75-90 | 2.00 | 1.93 |
| 1958 | 75-90 | 1.82 | 1.75 |
| 1959 | 75-90 | 1.81 | 1.76 |
| 1960 | 75-90 | 1.78 | 1.74 |
| 1961 | 75-90 | 1.79 | 1.83 |
| 1962 | 75-90 | 2.00 | 2.04 |
| 1963 | 75-90 | 2.00 | 2.03 |
| 1964 | 65-90 | 2.00 | 1.80 |
| 1965 | 65-90 | 2.00 | 1.79 |
| 1966 | 100 | 2.57 | 2.22 |
| 1967 | 100 | 2.61 | 1.87 |
| 1968 | 100 | 2.63 | —— |
| 1969 | 100 | —— | —— |

Source: U.S., Congress, Senate, Committee on Agriculture and Forestry, Hearings, 90th Cong., 2d Sess., 1968 and U.S., Department of Agriculture, Commodity Fact Sheet, Wheat, 1967 and 1968.

The wheat farmers who have participated in related production control programs have received additional government payments. During the three year period 1956-58, wheat farmers received $377 million for participating in the Acreage Reserve Soil Bank program. Beginning with the 1962 crop year, wheat farmers have been eligible for cropland diversion payments. The wheat farmers between 1962 and 1968 have received over $3.6 billion in diversion payments and domestic marketing certificates.

The purposes of these price support payments was to limit production so that the amount of surplus or carryover wheat could be reduced. A review of the total production of wheat in the United States during the last twenty years is shown in Table 2 at two year intervals.

Even though the Secretary of Agriculture has established allotments so that the acreage has been substantiality decreased (from 75.9 to 56.0 million acres harvested), the amount of wheat produced has not been decreased, but in fact has increased approximately 55 per cent. This was possible by the continuing increase in yield per acre. The increase was from about fifteen bushels to almost thirty bushels per acre. Contributing to the climb in yields have been improvements in quality of seed; better adapted varieties; proper and timely tillage operations; better control of diseases, weeds, and insects; increased use of fertilizer; and improved management. Higher yields since 1953 have been influenced by favorable growing conditions, more use of fallow, and the selection by farmers of their better

TABLE 2

Wheat Acreage Harvested, Yield Per Acre, and Total Production Crop Years 1949 Through 1968 (At Two Year Intervals)

| Crop Year | Acreage Harvested (Million Acres) | Yield Per Acre (Bushels) | Total Production (Millions of Bushels) |
|---|---|---|---|
| 1949 | 75.9 | 14.5 | 1098 |
| 1951 | 61.8 | 16.0 | 988 |
| 1953 | 67.8 | 17.3 | 1173 |
| 1955 | 47.3 | 19.8 | 937 |
| 1957 | 43.7 | 21.8 | 956 |
| 1959 | 51.9 | 26.2 | 1357 |
| 1961 | 51.6 | 23.9 | 1232 |
| 1963 | 45.5 | 25.2 | 1146 |
| 1965 | 49.6 | 26.5 | 1315 |
| 1967 | 59.0 | 25.8 | 1524 |
| 1968 | 56.0 | 28.7 | 1606 |

Source: U.S., Congress, Senate, Committee on Agriculture and Forestry, Farm Programs and Farm Bargining, Hearings, before the Committee on Agriculture and Forestry, 90th Cong., 2d sess., 1968, and U.S., Department of Agriculture, Commodity Fact Sheet, Wheat, 1967 and 1968.

land for wheat production.[2] In 1959 there was a significant increase in production which resulted from the introduction of a new variety of wheat highly resistant to rust disease.

By comparing the amount of wheat produced with the amount used, it is readily possible to determine the amount of surplus or carryover which must be stored until it is needed on the market. Table 3 gives this comparison. The same twenty year period is used with comparisons for about every other year.

An analysis of wheat available and the usage of wheat shows that the domestic usage has remained fairly stable while the export of wheat has increased. The reduction in carryover has been the result of expanded markets rather than decrease in production.[3] The carryover amounts remained higher than the desired amount (400 million bushels), expressed by Secretary Freeman.

This surplus condition exist even though price supports and related production control programs have been in effect for more than twenty years. The magnitude of this problem has greater significance when it is noted that in 1961, the storage cost of wheat and grain purchased by the CCC from U.S. farmers was greater than $1 million a day.[4]

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[2] U.S., Department of Agriculture, Yearbook of Agriculture, 1962, (Washington, D.C.: Government Printing Office, 1941), p. 115.

[3] The information concerning production and useage of wheat was extracted from U.S. Senate and House Agriculture Committee Hearings and U.S. Department of Agriculture, Commodity Fact Sheets on wheat.

[4] U.S., Congress, Senate, Farm Program Hearings, p. 569.

TABLE 3

Wheat Supply Available, Demand,
and Wheat Carryover,
1949 Through 1968
(Millions of Bushels)

| Year | Supply Available[a] | Demand | | Carryover |
|---|---|---|---|---|
| | | Domestic | Export | |
| 1949 | 1405 | 683 | 297 | 425 |
| 1951 | 1388 | 688 | 444 | 256 |
| 1953 | 1779 | 663 | 212 | 934 |
| 1955 | 1973 | 604 | 336 | 1033 |
| 1957 | 1865 | 592 | 392 | 881 |
| 1959 | 2670 | 606 | 654 | 1411 |
| 1961 | 2624 | 605 | 719 | 1322 |
| 1963 | 2337 | 580 | 856 | 901 |
| 1965 | 2133 | 732 | 867 | 535 |
| 1967 | 1949 | 651 | 762 | 537 |
| 1968 | 2143 | 675 | 750 | 701 |

[a]For ease in displaying the data, yearly production plus carryover from the previous year is shown as supply available.

Source: U.S., Department of Agriculture, Commodity Fact Sheet, Wheat, 1968.

## Wool Program

Wool, like sugar, is in deficit production in this country. Domestic wool production is far short of total domestic consumption at a time when surplus problems are paramount with a number of other agriculture commodities. Numbers of sheep and shorn wool production have gone through several production cycles of varying length since 1884 when this nation, with less than one half the current population, was producing nearly one third more wool than is being produced today. Numbers of sheep have increased and decreased cyclically in response to prices and feed conditions. The most drastic decline in history occurred during the period from 1942 to 1950. During this period of only eight years, the number of stock sheep and lambs fell from the near record level of over 49 million head to only 26 million.[5]

Shorn wool production has tended to vary with the number of sheep on farms and ranches, whereas pulled wool has varied with changes in the slaughter of sheep and lambs. About four-fifths of U.S. wool is produced as shorn wool; thus, total wool production has varied primarily with the number of sheep. Wool production propped from nearly 221 million pounds (scoured basis) in 1942 to 119 million pounds in 1950. It was 127 million pounds in 1952, including 102 million pounds of shorn wool (232.4 million pounds grease basis), and 25 million pounds of pulled wool (33.6 million pounds grease basis).[6]

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[5]U.S., Department of Agriculture, Achieving A Sound Domestic Wool Industry, An unpublished report to the President of the United States from the Secretary of Agriculture, prepared by an Inter-agency Wool Study Group in the Department of Agriculture, December, 1953, p. 2.

[6]Ibid.

It was with this background that Congress established the National Wool Act of 1954 creating a program designed to encourage domestic production at a yearly level of 300 million pounds of shorn wool (grease basis) through the use of annual incentive payments.[7] Under the Wool Act, growers sell their wool in normal marketing channels. After the year is over and the average price received for wool sold during the marketing year is known, payments are made to bring the national average price received by all growers up to the incentive level. The incentive level is determined each year by a parity index formula in the Wool Act as previously discussed. The payments are made at only one percentage rate—the percentage required to bring the national average price for wool sold in the free market up to the incentive level. By making the payments on a percentage basis, growers are encouraged to improve the quality and marketing of their wool to obtain the best price possible, because the higher the price the individual grower gets in the free market, the greater his payment. The total amount of payments under the Act is limited to 70 per cent of the accumulated totals of duties collected on imports of wool and wool manufacturers during the previous year.[8]

Support for pulled wool is provided under the act to maintain normal marketing practices; that is, to prevent unusual shearing prior to marketing just to get the payment on shorn wool. This is being handled by making payments on unshorn lambs. Returns from the sale of lambs represent two-thirds to three-fourths

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[7] U.S., Department of Agriculture, Agriculture Handbook No. 327, p. 200.

[8] Ibid., p. 201.

of the sheep producer's total income. Therefore, when lamb prices are low, the economy of the industry is adversely affected.

The National Wool Act also provides for the support of mohair by payments similar to those on shorn wool; however, that subject is beyond the scope of this study and primarily affects producers in the State of Texas.

During the first eleven years of the operation of the Wool Act, the level of incentive payments was sixty-two cents per pound. This level did encourage increased wool production up to 1960. However, low lamb prices in 1961 started a production decline. A summary of shorn wool production and incentive payments since establishment of the wool program is shown in Tables 4 and 5 by marketing year.

As can readily be seen, current production of shorn wool is just over two-thirds the established objective of 300 million pounds. Approximately six-sevenths of the wool produced is shorn wool. All U.S. produced wool is used for apparel manufacture.

The National Wool Act has given the sheep industry the opportunity to promote its own products through a self-help program. The Wool Act helps the U.S. sheep growers to compete with similar foreign products which have lower production costs and enables them to finance their own promotion organization for the development of new and larger markets for their products.

In September 1955, sheep industry leaders formed their own promotion organization, the American Sheep Producers Council, with headquarters in Denver,

TABLE 4

Summary of Stock Sheep Population, Total Wool Production and Incentive Price for Shorn Wool Marketing Years 1955 Through 1968

| Year | Stock Sheep Population (1,000 Head) | Total Wool Production (Million Pounds Grease Basis) | Incentive Price for Shorn Wool (Cents Per Pound) |
|---|---|---|---|
| 1955 | 21,137 | 282.9 | 62 |
| 1956 | 27,012 | 282.7 | 62 |
| 1957 | 26,012 | 272.7 | 62 |
| 1958 | 27,176 | 274.1 | 62 |
| 1959 | 28,108 | 294.4 | 62 |
| 1960 | 28,849 | 299.1 | 62 |
| 1961 | 28,320 | 295.7 | 62 |
| 1962 | 26,719 | 279.0 | 62 |
| 1963 | 25,122 | 267.0 | 62 |
| 1964 | 23,455 | 247.0 | 62 |
| 1965 | 21,843 | 224.7 | 62 |
| 1966 | 21,456 | 219.2 | 65 |
| 1967 | 20,658 | 211.1 | 66 |
| 1968 | 19,184 | ---- | 67 |

Source: Compiled from information presented to the U.S. House of Representatives, Committee on Agriculture by Secretary of Agriculture Freeman on April 25, 1968.

TABLE 5

Average Price Received By Growers
and Incentive Payments Required
1955 Through 1968

| Year | Average Price Received By Growers (Cents Per Pound) | Payments Required | | |
|---|---|---|---|---|
| | | Average (Cents Per Pound) | Rate (Per Cent) | Amount (Million Dollars) |
| 1955 | 42.8 | 19.2 | 44.9 | 57.6 |
| 1956 | 44.3 | 17.7 | 40.0 | 51.9 |
| 1957 | 53.7 | 8.3 | 15.5 | 16.1 |
| 1958 | 36.4 | 25.6 | 70.3 | 85.1 |
| 1959 | 43.3 | 18.7 | 43.2 | 53.8 |
| 1960 | 42.0 | 20.0 | 47.6 | 59.5 |
| 1961 | 42.9 | 19.1 | 44.5 | 56.7 |
| 1962 | 47.7 | 14.3 | 30.0 | 39.2 |
| 1963 | 48.5 | 13.5 | 27.8 | 27.2 |
| 1964 | 53.2 | 8.8 | 16.5 | 20.3 |
| 1965 | 47.1 | 14.9 | 31.6 | 34.2 |
| 1966 | 52.1 | 12.9 | 24.8 | 26.3 |
| 1967 | 39.8 | 26.2 | 65.8 | 56.8 |
| 1968 | ---- | ---- | ---- | ---- |

Source: Compiled from information presented to the U.S. House of Representatives, Committee on Agriculture by Secretary of Agriculture Freeman on April 25, 1968.

Colorado. This organization is entirely supported and governed by sheepmen and almost every producer in the United States contributes to the program through deductions from incentive payments received under the National Wool Act.[9]

The year following each extension of the National Wool Act, the Secretary of Agriculture calls a national referendum in order that sheep growers can determine for themselves whether they want to continue with their promotion programs through their own organization, the American Sheep Producers Council. The sheep growers have voiced their approval of this self-help program in four referendums. The last referendum, in 1966, received 79.9 per cent approval of the total who voted. Funds for the promotion and advertising programs are derived by deductions from the wool incentive payments at the rate of 1-1/2 cents per pound of shorn wool and 7-1/2 cents for each 100 pounds of unshorn lambs.[10]

Edwin E. Marsh, Executive Secretary of the National Wool Growers Association, when testifing before the House Committee on Agriculture on May 2, 1968, gave a number of reasons why there has been a continuing decline in stock sheep numbers and wool production since 1960.[11] These contributing factors include:

1. A sharp drop in lamb prices in 1961 and 1962 and a slow price recovery since that time;

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[9]U.S., Congress, House, Committee on Agriculture, Extend the Food and Agriculture Act of 1965, Hearings, before the Committee on Agriculture, 90th Cong., 2d sess., 1968, pp. 358-363.

[10]Ibid., p. 362.

[11]Ibid., p. 359.

2. Inability to obtain adequate and dependable labor;

3. Severe losses from predatory animals;

4. Drought in some areas;

5. Continued reductions in grazing allotments on Federal grazing land; and

6. Shifts to other livestock and alternative farm enterprises.

Mr. March stated an opinion that "payments under the wool program have provided incentive on the wool portion of the sheep enterprise, but have not compensated for all of the adverse factors determining the trend of stock sheep numbers and hence, wool production. We must recognize, however, that many growers are in sheep and wool production today who would have liquidated their flocks if it had not been for the wool payment program. Therefore, the Wool Act is encouraging wool production since the level of production would be considerably lower without the assistance the program provides."[12]

An overview of the wheat and the wool programs shows that after a considerable period of operation, the stated objectives of neither have been achieved. Even with a much larger market and added emphasis on voluntary diversion of cropland, price support payments have not decreased production enough to absorb the surplus wheat. Current production still results in 150 per cent of the desired reserve of 400 million bushels. The incentive payments to wool growers may have slowed the decline in production, but current production is at only sixty to seventy per cent of the desired annual production of 300 million pounds.

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[12] Ibid.

## CHAPTER VI

## SUMMARY AND CONCLUSIONS

The agricultural industry of the United States is large enough for an imbalance in supply and demand of agricultural commodities to adversely affect not only American farmers and ranchers, but the national and world economy. The American farmer has greatly increased his productive efficiency by the use of science, technology, and management practices. This increased efficiency has required the implementation of adjustment or control mechanisms and incentives to maintain a proper balance between demand and supply.

This study has been limited to evaluating the effectiveness of the price support program established by Congress as a mechanism for controlling the production of wheat and wool. These commodities were chosen to demonstrate the use of the same mechanism (price support) to both increase (wool) and decrease (wheat) production.

The Commodity Credit Corporation is the fiscal agency of the United States for national farm commodity programs. As such, the CCC finances the price support programs through use of its own capital funds and by borrowing from the Treasury and private lending agencies. Losses realized by the CCC are covered by appropriations by the Congress.

The Corporation is required to use, to the maximum extent possible, the customary channels, facilities, and trade and commerce arrangements in carrying out its operations. It is prohibited from acquiring real property, or any interest in property except for the purpose of protecting its financial interests and for providing adequate storage to carry out its programs effectively and efficiently.

The level of support prices is established by Congress in terms of parity. The Secretary of Agriculture translates these terms into dollars and cents after considering:

1. the supply of the commodity in relation to demand;
2. the price levels at which other commodities are being supported;
3. availability of funds;
4. perishability of the commodity;
5. importance of commodity to agriculture and national economy;
6. ability to dispose of stocks acquired through price support operations;
7. need for offsetting temporary export losses; and
8. ability and willingness of producers to keep in line with demand.

Most support levels are national average prices, representing the average of all classes and grades of a commodity as sold by all farmers at their local markets. To determine most support prices to producers, the national price is adjusted to reflect the factors that influence the price at local markets. Thus, the national average price is converted into specific support prices for specific qualities at specific locations.

The price support programs are administered through the personnel and

facilities of the Agricultural Stabilization and Conservation Service. The county A ASCS office is the arm of this agency that normally assists the producers who participate in price support programs.

Wheat is one of the basic commodities designated by Congress to be supported by price supports. It has been supported continuously since 1936 at the level prescribed by Congress and implemented by the Secretary of Agriculture. With this mechanism in effect to adjust production, the surplus of wheat has remained above the desired level.

A review of the wheat production records since the implementation of price supports reveals that the yield per acre has continually increased. To supplement the price support program, acreage allotments and acreage diversion programs have been used to restrict or limit the amount of land which might be used to produce wheat.

The International Wheat Agreement and the International Grain Agreement have aided in expanding the market for U.S. produced wheat. Still, the surplus of wheat has not been limited to the desired level. While it is not possible to state what the supply of wheat would be compared to the demand had no effort been made to limit production, it is clear that the objective of the wheat program has not been completely achieved. The supply of wheat and the demand for wheat are not in line. If control had not been exercised however, disastrous price results may have been the result.

Wool, like sugar, is a commodity which is produced in quantities in the U.S. to meet the domestic demand. Because it is a commodity deemed essential for

national security, Congress established the Wool Program in 1954 and set a program goal of domestic production at the level of 300 million pounds of shorn wool per year. To encourage this level of production, wool prices are supported through use of incentive payments to the wool growers. A provision is made for the wool growers to use a small portion of these incentive payments to organize and conduct advertising and sales promotion activities.

At no time since the establishment of this program has the total (shorn and pulled) production of wool grown in the U.S. reached the 300 million pound level. In fact, since 1960, the amount of domesticly produced has steadily decreased. The incentive payments to the wool growers have not offset the adverse conditions causing a decline in the number of stock sheep grown by the wool growers. While the decline in wool production may currently be slower than it would have without the support of wool prices through incentive payments, the program has not achieved the goal established.

It can be stated then, that price support as a mechanism to adjust or control production has not proven effective in maintaining a blance of supply and demand for either wheat or wool. Even when supported by related programs, the balance has not been achieved.

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